

VZCZCXRO2792

PP RUEHAG RUEHBC RUEHDE RUEHKUK RUEHROV

DE RUEHLB #1345/01 2591038

ZNY CCCCC ZZH

P 151038Z SEP 08

FM AMEMBASSY BEIRUT

TO RUEHC/SECSTATE WASHDC PRIORITY 3026

INFO RUEHEE/ARAB LEAGUE COLLECTIVE

RUCNMEM/EU MEMBER STATES COLLECTIVE

RUCPDOC/DEPT OF COMMERCE WASHDC

RUCNDT/USMISSION USUN NEW YORK 2900

RUEHNO/USMISSION USNATO 3117

RHMFISS/CDR USCENTCOM MACDILL AFB FL

RHEHAAA/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 BEIRUT 001345

SIPDIS

DEPT FOR NEA/FO, NEA/ELA

ALSO FOR IO ACTING A/S HOOK AND PDAS WARLICK

USUN FOR KHALILZAD/WOLFF/SCHEDLBAUER

NSC FOR ABRAMS/RAMCHAND/YERGER/MCDERMOTT

COMMERCE FOR ITA SAMS AND WIEGLER

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E.O. 12958: DECL: 09/12/2018

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SUBJECT: LEBANON: MINISTRY OF ECONOMY AND TRADE DISCUSSES

SITUATION IN TRIPOLI, ECONOMIC POLICY

REF: BEIRUT 1337

Classified By: Ambassador Michele J. Sison for reasons 1.4
(b) and (d).

SUMMARY

¶1. (C) In a meeting with the Ambassador, Ministry of Economy and Trade Mohammad Safadi praised majority leader Saad Hariri's role in the reconciliation among opposing groups in Tripoli, but said their weapons will remain. He worried that the Beddawi Palestinian refugee camp outside Tripoli is becoming a new hub of extremism. He said the launch of the National Dialogue is a good idea, and that Hizballah's arms should be the first item on the agenda. He believed the 2009 parliamentary elections might be delayed to ensure that preparations are complete and there are sufficient election workers to cover the country.

¶2. (C) The Ambassador thanked Safadi for his support and upcoming participation in the Made in America trade fair in October. The Minister talked about the September 9 cabinet approval of public and private sector wage increases and labor's response. He defended his decision to reinstate limits on profit margins in the trade sector, but said WTO-related legislation was on track in the parliament. He said the GOL hoped the Qataris might provide support and investment to the Lebanese economy, and he indicated that President Sleiman might lead a delegation to the Arab League economic summit to be held in Kuwait in January 2009. End summary.

RECONCILIATION IN TRIPOLI,
BUT THEY STILL HAVE WEAPONS

¶3. (C) The Ambassador, accompanied by EconOff, called on Minister of Economy and Trade Mohammad Safadi in his ministry office September 11. Safadi, a Sunni and native of Tripoli, said that the reconciliation among Sunni and Alawite groups around Tripoli was a very good development, and that Saad Hariri had played an important role. The Ambassador said she worried that despite the political reconciliation, the groups still had their weapons. "Yes," said Safadi, "and the weapons will stay there for the time being." Nonetheless, he

said, as long as the political situation remained stable, there was very little concern that the groups would use those weapons. Safadi worried more about the mercenaries who had been hired to fight for one side or the other, and would pick up their arms for anyone at any moment.

¶4. (C) Safadi said that those who had provided weapons to the Salafists in Tripoli had made a grave mistake, and that the idea of using Sunni extremists to fight Hizballah was dangerous. He also contended that the Salafists had made a mistake in wanting weapons. He said he had met with some of the Salafist leaders and tried to convince them: "As long as you are just selling an idea," he reportedly told them, "the constitution protects you, and you can say what you like. But once you start carrying a gun, you are a terrorist, and the head of a terrorist will eventually be cut off. For your own safety, get rid of your weapons." Unfortunately they were not convinced, he said. Safadi added that the political leadership needed to persuade all parties not to provide funding to these groups anymore. (Note: Several Embassy contacts have claimed that Safadi was in fact one of those funding weapons for Salafist groups. End note.)

¶5. (C) The Ambassador asked Safadi if the destruction around Nahr al-Barid camp, which affect Lebanese communities as well, continued to impact the region around Tripoli. Safadi said he worried that the crowded Beddawi refugee camp, where many of the displaced from Nahr al-Barid had fled, was now being used by Sunni extremist groups as a base.

NATIONAL DIALOGUE AND THE ELECTIONS

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¶6. (C) Safadi said President Sleiman made a good move in deciding to launch the National Dialogue on September 16 with the same participation as at the Doha Conference. He said Sleiman had actually wanted to include more parties in the Dialogue, but had decided to launch with 14 participants and let them decide whether or not to expand participation. When asked how he felt about the Dialogue agenda being expanded to include economic issues, Safadi said there was one issue that should be the first to be discussed: Hizballah's weapons. After that is settled, he said, "we can talk about whatever they want."

¶7. (C) The Minister said that the timetable for the parliamentary elections would depend to a certain extent on progress in the National Dialogue. However, even if the National Dialogue goes perfectly, he said, there is a possibility the elections might be delayed a month or two, in order to ensure that all the necessary preparations are made and that there are sufficient election workers for all the polling stations. He said the elections should be done in one day, if at all possible, to minimize manipulation or chances for violence. Despite the logistical challenges, he said, "we have to do it in one day."

MADE IN AMERICA

¶8. (SBU) The Ambassador thanked Minister Safadi for approving the U.S. Commercial Service's Made in America trade fair, to take place October 9-11 in Beirut. The Minister indicated that he would participate in the ribbon-cutting ceremony for the event, at which more than 260 companies will exhibit. (Note: This will be the first Made in America since 2005. Safadi appears eager to support U.S.-linked events; he was a keynote speaker September 12 at the Lebanese-American Renaissance Partnership Conference. End note.)

HIGHER WAGES TOUGH ON THE BUDGET

¶9. (SBU) Safadi, commenting on the September 9 unanimous cabinet approval of a series of wage increases for Lebanese workers, said the wage increase was modest, but that it was all the government could afford, something he had tried to explain to the labor leaders. "We are both correct," he said he told them, "What you say you deserve, you deserve, but what we say we can afford, is what we can afford." He noted that the indirect taxation measures the cabinet had included in the wage increase package would at least partially offset the cost of the wage increase. (Note: Finance Minister Chatah's description of these measures is included in reftel. End note.)

"ANTI-FREE TRADE MEASURE"

¶10. (C) Minister Safadi brought up "my anti-free trade measure" -- his recent reinstatement of a previously abolished decree setting maximum profit margins for companies in the trade sector. He said that he disagreed with the concept of the decree, which is a step back on the road to WTO accession, but that he had to bring it back because "free competition does not exist in Lebanon." He claimed that he had seen signs of price collusion in the consumer goods market, and was forced to bring back the "sword" he could use to stop it. He said he called all the industrial leaders in the country before he took the measure, telling them that as long as they restrained themselves, he would not apply it. "I do not want to use it, but it is there if I need to," he said.

¶11. (SBU) Nonetheless, said the Minister, other laws before parliament that will be needed for WTO accession should be voted on in the coming weeks and months. He said he did not

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anticipate any political opposition to them, though he did worry that parliament is currently acting very slowly, so it might take a while for parliament to get to them.

"WHATEVER YOU HELP US WITH, WE ARE THANKFUL"

¶12. (C) When asked about potential trade deals with Lebanon's neighbors, Safadi answered that President Sleiman's trip to Qatar had resulted in a few ideas for Qatari investment and assistance in Lebanon. He said Sleiman had discussed a possible joint Qatari-Lebanese development project in which the Lebanese government would provide land and the Qataris would provide investment money. Safadi said the Qataris also indicated they would increase their deposit at the Lebanese central bank. "We had a big shopping list," said Safadi, "and we told them, 'Whatever you help us with, we are thankful.'"

¶13. (SBU) Safadi also noted that there had been a positive economic outcome from the recent Arab League Summit in Egypt: the Arab Economic Summit to take place in Kuwait in January. Referring to it as an "Arab Davos," Safadi said he would certainly attend, and that there was a good possibility that President Sleiman would lead the Lebanese delegation.

SISON